

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re

Allegiance Telecom, Inc , et al ,

Debtors.

X

Chapter 11 Case No
03-13057 (RDD)

Jointly Administered

X

**ORDER (I) APPROVING THE DISCLOSURE STATEMENT;
(II) ESTABLISHING A RECORD DATE; (III) APPROVING
SOLICITATION PACKAGES AND PROCEDURES FOR
DISTRIBUTION THEREOF; (IV) APPROVING FORMS
OF BALLOTS AND ESTABLISHING PROCEDURES FOR
VOTING ON THE PLAN; AND (V) ESTABLISHING NOTICE AND
OBJECTION PROCEDURES FOR CONFIRMATION OF THE PLAN**

This matter coming before the Court on April 16, 2004:

(i) the Disclosure Statement for Debtors' Joint Plan of Reorganization

Pursuant to Chapter 11 of the Bankruptcy Code, dated March 18, 2004 (as such may be amended, the "Disclosure Statement") for Allegiance Telecom, Inc., and its direct and indirect subsidiaries as debtors and debtors in possession (collectively, the "Debtors");

(ii) the Motion of the Debtors for an Order (I) Approving the Disclosure Statement, (II) Establishing a Record Date; (III) Approving Solicitation Packages and Procedures for Distribution Thereof, (IV) Approving Forms of Ballots and Establishing Procedures for Voting on the Plan; and (V) Establishing Notice and Objection Procedures for Confirmation of the Plan (the "Motion"), filed by the Debtors on March 18, 2004,

(iii) a hearing having been held on April 16, 2004 (the "Disclosure Statement Hearing"), to consider the Motion and approval of the Disclosure Statement.

(vii) the Court having reviewed the Motion and all pleadings related thereto and having heard the statements of counsel regarding the relief requested in the Motion at the Disclosure Statement Hearing; and the Court having determined that the legal and factual bases

set forth in the Motion and at the Disclosure Statement Hearing establish just cause for the relief granted herein,

THE COURT HEREBY FINDS AS FOLLOWS:

A The Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334

B This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2)

C Notice of the Motion and the Disclosure Statement Hearing, made in the manner described in the Motion, was sufficient and appropriate under the circumstances and complied with the requirements of title 11 of the United States Code (the “Bankruptcy Code”), the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”) and the Local Rules for the United States Bankruptcy Court for the Southern District of New York (the “Local Bankruptcy Rules”)

D The relief requested in the Motion and granted herein is warranted under the circumstances and is in the best interests of the Debtors’ estates, creditors and all parties in interest

E The form of the ballots attached to the Motion as Exhibit B (collectively, the “Ballots”), including the Master Ballots (as defined in paragraph H herein), (i) are consistent with Official Form No. 14, (ii) adequately address the particular needs of these chapter 11 cases, (iii) are appropriate for each class of claims entitled to vote to accept or reject the Debtors’ Joint Plan of Reorganization Pursuant to Chapter 11 of the Bankruptcy Code (as such may be amended, the “Plan”) and (iv) comply with Bankruptcy Rule 3017(d).

F Ballots need not be provided to holders of claims in Class 1 (Priority Non-Tax Claims), Class 2 (Secured Claims) and Class 3 (Senior Lender Claims) because these classes

are unimpaired and are conclusively presumed to accept the Plan in accordance with section 1126(f) of the Bankruptcy Code

G Ballots need not be provided to holders of claims in Class 6 (Subordinated Claims) and holders of equity interests in Class 7 (Equity Interests) because these classes will not receive a distribution under the Plan and are deemed to have rejected the Plan in accordance with section 1126(g) of the Bankruptcy Code

H The period during which the Debtors may solicit votes to accept or reject the Plan, as established by this Order, provides sufficient time for (i) creditors to make informed decisions to accept or reject the Plan and submit timely Ballots to the Debtors' voting agent, Bankruptcy Management Corporation (the "Voting Agent"), and (ii) brokers, banks, dealers or nominees (collectively, the "Nominees") for beneficial owners (the "Beneficial Owners") of the public notes and bonds issued by Allegiance Telecom, Inc as identified in the Plan (collectively, the "ATI Notes") to distribute the Ballots for Beneficial Owners, for such Beneficial Owners to complete and submit timely such Ballots to the Nominees (or if such Ballots have been "prevalidated" by the Nominees, to the Voting Agent) and for the Nominees to complete and timely submit master ballots for tabulating the votes and elections on the Ballots of the Beneficial Owners (the "Master Ballots") to the Voting Agent

I. The procedures for the solicitation and tabulation of votes to accept or reject the Plan, as approved herein, provide a fair and equitable voting process and are consistent with section 1126 of the Bankruptcy Code.

J. The contents of the Solicitation Packages (as defined in the Motion), the procedures for providing notice of the hearing on confirmation of the Plan (the "Confirmation Hearing") and the other matters set forth in the "Confirmation Hearing Notice," substantially in

the form annexed to the Motion as Exhibit E, comply with Bankruptcy Rules 2002 and 3017 and constitute sufficient notice to all interested parties in accordance with the Bankruptcy Code, the Bankruptcy Rules and the Local Bankruptcy Rules.

K. Notice of the Motion and the Disclosure Statement Hearing was served in accordance with the Motion and such notice constitutes good and sufficient notice to all interested parties and no other or further notice need be provided.

L. The Disclosure Statement contains “adequate information” within the meaning of section 1125 of the Bankruptcy Code.

ACCORDINGLY, IT IS HEREBY ORDERED THAT

1 The relief requested in the Motions is GRANTED to the extent set forth herein.

2. The Debtors and any other party are authorized to file a consolidated reply to the objections, if any, to the Plan

3 The Ballots and Master Ballots substantially in the forms attached to the Motion as Exhibit B, are APPROVED, including the election mechanisms contained therein. The appropriate Ballots and Master Ballots shall be distributed to holders of claims in the following classes entitled to vote to accept or reject the Plan:

<u>Class 4 Ballot</u>	Class 4: ATCW Unsecured Claims
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<u>Class 5 Ballot</u>	Class 5: ATI Unsecured Claims
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4 To be counted as votes to accept or reject the Plan, all Ballots and Master Ballots *casted on behalf of Beneficial Holders* must be properly executed, completed and delivered to the Voting Agent either by (a) first-class mail, in the return envelope provided with each Ballot, (b) overnight courier or (c) personal delivery so that, in each case, they are actually

received by the Voting Agent by no later than 5:00 p.m., prevailing Eastern Time, on May 21, 2004 (the "Voting Deadline"), which date shall be included in the Disclosure Statement, each Ballot, and any notice of the Confirmation Hearing contained in the Solicitation Packages or otherwise distributed or published by the Debtors

5 In tabulating the Ballots and Master Ballots, the following procedures shall be utilized:

- a. Ballots and Master Ballots received after the Voting Deadline will not be accepted or counted by the Debtors;
- b. Beneficial Holders must vote all of their claims with respect to a particular issue of ATI Notes either to accept or reject the Plan and may not split their votes with respect to a particular issue of ATI Notes,
- c. Any Ballot (or a group of Ballots with respect to a particular issue of ATI Notes received from a single creditor) that partially rejects and partially accepts the Plan shall be counted as an acceptance of the Plan,
- d. The method of delivery of the Ballots and Master Ballots to be sent to the Voting Agent is at the election and risk of each holder of a claim and (if applicable) Nominee, and will be deemed made only when the original executed Ballot or Master Ballot is actually received by the Voting Agent;
- e. Delivery of a Ballot or Master Ballot by facsimile, e-mail or any other electronic means will not be accepted by the Voting Agent,
- f. No Ballot or Master Ballot sent to the Debtors, any indenture trustee or the Debtors' financial or legal advisors shall be accepted;
- g. If multiple Ballots are received from or on behalf of an individual holder of a claim with respect to the same claim prior to the Voting Deadline, the last Ballot timely received will be deemed to reflect the intent and to supercede and revoke any prior Ballot with respect to such claim;
- h. If a Ballot is signed by a trustee, executor, administrator, guardian, attorney-in-fact, or other person acting in a fiduciary or representative capacity, such person shall be required to indicate such capacity when signing. The Debtors may request proper evidence prior to accepting such Ballot;
- i. The Debtors, in their sole discretion, subject to any contrary order of the Court, may waive any defect in any Ballot or Master Ballot at any time, whether before or after the Voting Deadline, and without notice;

- j Any holder of impaired claims who has delivered a valid Ballot voting on the Plan may withdraw such vote solely in accordance with Bankruptcy Rule 3018(a),
- k Subject to any contrary order of the Court, the Debtors reserve the absolute right to reject any and all Ballots or Master Ballots not in proper form, the acceptance of which would, in the opinion of the Debtors or their counsel, not be in accordance with the provisions of this Order or the Bankruptcy Code;
- l If no votes to accept or reject the Plan are received with respect to a particular class, such class shall be deemed to have voted to accept the Plan;
- m. Unless waived by the Debtors, or as ordered by the Court, any defects or irregularities in connection with the deliveries of the Ballots or Master Ballots must be cured by the Voting Deadline, and unless otherwise ordered by the Court, delivery of such Ballots or Master Ballots will not be deemed to have been made until such irregularities have been cured or waived; and
- n. Except as may be provided by Local Bankruptcy Rule 3018-1(b) with respect to a Ballot or Master Ballot received prior to the Voting Deadline neither the Debtors, nor any other person or entity, will be under any duty to provide notification of defects or irregularities with respect to deliveries of Ballots or Master Ballots nor will any of them incur liabilities for failure to provide such notification.

6 With respect to the tabulation of Master Ballots and Ballots casted by

Nominees and Beneficial Owners, for purposes of voting, the amount that will be used to

tabulate acceptance or rejection of the Plan will be the principal amount held as of the Record

Date (the "Record Amount") and the following additional rules will apply to the tabulation of

Master Ballots and Ballots cast by Nominees and Beneficial Owners:

- a. Votes casted by Beneficial Owners through Nominees will be applied against the positions held by such entities in the applicable security as of the Record Date, as evidenced by the record and depository listings. Votes submitted by a Nominee, whether pursuant to a Master Ballot or prevalidated Ballot, will not be counted in excess of the Record Amount of such securities held by the Beneficial Owners for whom the Nominee provides services
- b. To the extent that conflicting votes or "overvotes" are submitted by a Nominee, whether pursuant to a Master Ballot or prevalidated Ballot, the Debtors will attempt to reconcile discrepancies with the Nominees
- c. To the extent that overvotes on a Master Ballot or "prevalidated" Ballot are not reconciled prior to the preparation of the vote certification, the

Debtors will apply the votes to accept and to reject the Plan in the same proportion as the votes to accept and reject the Plan submitted on the Master Ballot or prevalidated Ballots that contained the overvote, but only to the extent of the Nominee's position in the applicable security.

- d For purposes of tabulating votes, each Nominee or Beneficial Owner will be deemed to have voted the principal amount of its Claim relating to such security
 - e A single Nominee may complete and deliver to the Voting Agent multiple Master Ballots. Votes reflected on multiple Master Ballots will be counted, except to the extent they are duplicative of other Master Ballots. If two or more Master Ballots are inconsistent, the latest dated Master Ballot received prior to the Voting Deadline will, to the extent of such inconsistency, supercede and revoke any prior Master Ballot.
- 7 Each Nominee shall (a) forward the Solicitation Package to each

Beneficial Owner for voting and include a return envelope provided by and addressed to the Nominee so that the Beneficial Owner may return the completed beneficial owner ballot to the Nominee, (b) upon receipt of the Ballots, summarize the individual votes of its respective Beneficial Owners on the Master Ballot and (c) submit the Master Ballot to the Voting Agent by the Voting Deadline, provided, however, that if the Nominee elects to "prevalidate" Ballots, the following procedures shall apply

- a. The Nominee shall forward the Solicitation Package or copies thereof (including (i) the Disclosure Statement, (ii) an individual Ballot that has been prevalidated, as indicated in paragraph (b) below, and (iii) a return envelope provided by and addressed to the Voting Agent) to the Beneficial Owner within three (3) business days of the receipt by such Nominee of the Solicitation Package,
 - b To "prevalidate" a ballot, the Nominee shall complete and execute the Ballot (other than Items 2, 3 and 4) and indicate on the Ballot the name of the registered holder, the amount of securities held by the Nominee for the Beneficial Owner and the account number(s) for the account(s) in which such securities are held by the Nominee, and
 - c. The Beneficial Owner shall return the prevalidated Ballot to the Voting Agent by the Voting Deadline.
- 8 To the extent that the Nominees incur out-of-pocket expenses in

connection with distribution of the Master Ballots and Ballots, the Debtors are authorized to

reimburse such entities for their reasonable, actual, and necessary out-of-pocket expenses incurred in this regard

9. Solely for purposes of voting to accept or reject the Plan — and not for any other purpose, including the allowance of, or distribution on account of, a claim, and without prejudice to the rights of the Debtors in any other context — each claim within a class of claims entitled to vote to accept or reject the Plan shall be temporarily allowed in accordance with the following rules (the “Tabulation Rules”).

- d if a claim for which a proof of claim has been timely filed is not listed on the Schedules and no objection to such claim has been filed on or before the Voting Deadline, the claim shall be temporarily allowed for voting purposes in the amount set forth in the proof of claim;
- e if a claim for which a proof of claim has been timely filed is, by its terms, contingent, unliquidated, or disputed, the claim shall be temporarily allowed for voting purposes in the amount of \$1.00
- f if a claim is listed as *contingent*, *unliquidated* or *disputed*, either in the Schedules or in a proof of claim, the claim shall be temporarily allowed for voting purposes only in an amount equal to \$1.00,
- g notwithstanding any other Tabulation Rule (as defined herein), if a claim is deemed allowed in accordance with the Plan, such claim will be allowed for voting purposes in the deemed allowed amount set forth in the Plan;
- h if the Debtors have served and filed an objection to a claim prior to the Voting Deadline, such claim shall be temporarily allowed for voting purposes in amount equal to the greater of \$1.00 or the undisputed amount of such claim;
- i. if a claim is listed in the Schedules as being a non-priority claim or is not listed in the Schedules and a proof of claim is filed as a priority claim (in whole or in part), such claim will be temporarily allowed for voting purposes as a non-priority claim in an amount that such claim would have been so allowed in accordance with the other Tabulation Rules had such proof of claim been filed as a non-priority claim;
- j. if a claim is listed in the Schedules as being an unsecured claim or is not listed in the Schedules and a proof of claim is filed as a secured claim (in whole or in part), such claim will be temporarily allowed for voting purposes as an unsecured claim in an amount that such claim would have been so allowed in accordance with the other Tabulation Rules had such proof of claim been filed as an unsecured claim;

- k. notwithstanding any other Tabulation Rule, if a claim has been estimated or otherwise allowed for voting purposes by order of the Court, such claim will be temporarily allowed for voting purposes in the amount so estimated or allowed by the Court (a stipulation as to voting amount may be filed by Notice of Presentment in accordance with Local Bankruptcy Rule 9074-1(c) on five (5) days' notice);
- l. if a claim relates to rejection damages under an executory contract or unexpired lease that has not been rejected as of the Voting Deadline, to the extent such claim is for rejection damages, such claim shall be temporarily disallowed by the Court for voting purposes and, to the extent such claim is solely for rejection damages, such Ballot shall not be counted as having voted for or against the Plan, and
- m. if a claim holder identifies a claim amount on its Ballot that is less than the amount otherwise calculated in accordance with the Tabulation Rules, the claim will be temporarily allowed for voting purposes in the lesser amount identified on such Ballot

10. If any claimant seeks to challenge the allowance of its claim for voting purposes in accordance with the Tabulation Rules, such claimant must file a motion, pursuant to Bankruptcy Rule 3018(a), for an order temporarily allowing such claim in a different amount or classification for purposes of voting to accept or reject the Plan (a "Rule 3018 Motion") and file with the Court (with a copy to chambers) and serve such motion on the Debtors on or before the tenth (10th) day after the later of (a) service of the Confirmation Hearing Notice and (b) service of notice of an objection, if any, to such claim. In accordance with Bankruptcy Rule 3018, that as to any creditor filing such a motion, such creditor's Ballot should not be counted unless temporarily allowed by the Court for voting purposes, after notice and a hearing.

11. Objections, if any, to confirmation of the Plan must (a) be in writing; (b) state the name and address of the objecting party and the nature of the claim or interest of such party, (c) state with particularity the basis and nature of any objection to the confirmation of the Plan, and (d) be filed, together with proof of service, with the Court and served so that they are received by (i) the Clerk of the Court, (ii) attorneys for the Debtors, (iii) attorneys for the Creditors Committee, (iv) the attorneys for the Senior Lenders, and (v) the U.S. Trustee, at the

addresses set forth in the Confirmation Hearing Notice so that they are received no later than May 21, 2004 at 4 00 p m., prevailing Eastern Time (the "Confirmation Objection Deadline").

12 The Confirmation Hearing will be held at **10:00 a.m., prevailing Eastern Time, on May 26, 2004, provided, however,** that the Confirmation Hearing may be adjourned from time to time by the Court or the Debtors without further notice to parties other than an *announcement in Court* at the Confirmation Hearing or any adjourned Confirmation Hearing.

13 The Confirmation Hearing Notice in substantially the form attached to the Motion as Exhibit E is APPROVED The Debtors shall serve copies of the Confirmation Hearing Notice, along with the other materials comprising the Solicitation Package, in accordance with the procedures set forth below In addition, the Debtors shall publish a notice substantially in the form of the Confirmation Hearing Notice not less than twenty-five (25) days before the time fixed for *filing objections to the confirmation of the Plan* in the national editions of The Wall Street Journal and The New York Times

14 Pursuant to Bankruptcy Rule 3018(a), the record date for purposes of determining which creditors are entitled to receive Solicitation Packages and, where applicable, vote on the Plan shall be _____, 2004 (the "Record Date") The Debtors shall specify the Record Date in the Confirmation Hearing Notice Only holders of claims as of the Record Date shall be entitled to vote to accept or reject the Plan or make any election set forth on the Ballot

15 With respect to a transferred claim, the transferee shall be entitled to receive a Solicitation Package and cast a Ballot on account of such claim only if (a) all actions necessary to effectuate the transfer of the claim pursuant to Bankruptcy Rule 3001(e) have been completed by the Record Date or (b) the transferee files by the Record Date (i) the documentation required by Bankruptcy Rule 3001(e) to evidence the transfer and (ii) a sworn

statement of the transferor supporting the validity of the transfer. Each transferee shall be treated as a single creditor for purposes of the numerosity requirements in section 1126(c) of the Bankruptcy Code and the other voting and solicitation procedures set forth in this Order.

16 In the event a claim is transferred after the Record Date, the transferee of such claim shall be bound by any election made on the Ballot by the holder as of the Record Date of such claim as of the Record Date.

17 The Debtors are authorized to mail or cause to be mailed Solicitation Packages containing copies of: (a) a copy of this Order, (b) the Confirmation Hearing Notice, (c) the Disclosure Statement (together with the exhibits thereto, including the Plan annexed, that have been filed with the Court before the date of the mailing), (d) for Solicitation Packages sent to holders of claims in classes entitled to vote to accept or reject the Plan, an appropriate form of Ballot and a return envelope; and (e) for Solicitation Packages sent to holders of claims and interests not entitled to vote to accept or reject the Plan pursuant to sections 1126(f) or 1126(g) of the Bankruptcy Code, an appropriate Notice of Non-Voting Status substantially in the form of Exhibit C or D annexed to the Motion, as applicable, provided, however, that the Notices of Non-Voting Status shall provide that a copy of the Solicitation Packages may be viewed at www.bmccorp.net/allegiance.

18. With respect to the Beneficial Holders who hold stock through the Nominee Stockholders, the following procedures for the distribution of the Notices of Non-Voting Status-Impaired Classes shall apply:

- a the Nominee Stockholders shall forward the Notice of Non-Voting Status-Impaired Class or copies thereof to the Beneficial Stockholders within three (3) business days of the receipt by such Nominee Stockholders of the Notice of Non-Voting Status-Impaired Classes; and

- b. the Debtors shall provide the Nominee Stockholders with sufficient copies of the Notice of Non-Voting Status-Impaired Classes to forward to the Beneficial Stockholders.

19 To the extent that the Nominee Stockholders incur out-of-pocket expenses in connection with distribution of the Notice of Non-Voting Status-Impaired Classes, the Debtors are authorized to reimburse such entities for their reasonable, actual, and necessary out-of-pocket expenses incurred in this regard

20 The Debtors shall mail the Solicitation Packages to (a) all persons or entities that filed proofs of claim on or before the Record Date, except to the extent a claim was paid pursuant to, or expunged by, a prior order of the Bankruptcy Court, (b) all persons or entities listed in the Debtors' schedules of assets and liabilities (as amended, the "Schedules") as holding liquidated, noncontingent, and undisputed claims in an amount greater than zero, (c) the registered holders of the Debtors' debt and equity securities as of the Record Date, by no later than later four (4) business days after the Record Date

21. The Debtors shall distribute or cause to be distributed by the Solicitation Date (as defined in the Motion), (a) the Disclosure Statement Order, (b) the Confirmation Hearing Notice, (c) the Disclosure Statement (together with the Plan annexed thereto as Exhibit A) and (d) such other materials the Court may direct to (i) the U.S. Trustee, (ii) the attorneys for the Creditors Committee, (iii) the attorneys for the Senior Lenders, (iv) all other parties in interest that have filed a request for notice pursuant to Bankruptcy Rule 2002 in the Debtors' chapter 11 cases, (v) the SEC, (w) the IRS, and (vii) the DOJ.

22 With respect to any creditor who has filed duplicate claims (whether against the same or multiple Debtors), which are classified under the Plan in the same class, the Debtors shall provide to such creditor only one Solicitation Package and one Ballot for voting a single claim in such class

23 Solicitation Packages will not be sent to creditors whose claims are based solely on amounts scheduled by the Debtors but whose claims already have been paid in the full scheduled amount, provided, however, if, and to the extent that, any such creditor would be entitled to receive a Solicitation Package for any reason other than by virtue of the fact that its claim had been scheduled by the Debtors, such creditor will be sent a Solicitation Package in accordance with the procedures set forth above

24 The Debtors will not send a Solicitation Package to any creditor who filed a proof of claim if the amount asserted in such proof of claim is less than or equal to the amount scheduled for such claim and such amount has already been paid.

25 With respect to addresses from which notices of the hearing to approve the Disclosure Statement that were sent to *all creditors and equity security holders* were returned as undeliverable by the United States Postal Service, the Debtors are excused from distributing Solicitation Packages to those entities at such addresses unless the Debtors are provided with accurate addresses for such entities before the Solicitation Date and failure to distribute Solicitation Packages to such entities will not constitute inadequate notice of the Confirmation Hearing, the Voting Deadline, or violation of Bankruptcy Rule 3017(d).

26. The certification of Ballots shall be filed on or before the date of the Confirmation Hearing.

27. The Debtors are authorized to make non-substantive changes to the Disclosure Statement, Plan, Ballots, Master Ballots, Confirmation Hearing Notice, and related documents without further order of the Court, including, *without limitation, changes to correct typographical and grammatical errors and to make conforming changes among the Disclosure Statement, the Plan, and any other materials in the Solicitation Package prior to their distribution.*

28 The Debtors are authorized to take or refrain from taking any action necessary or appropriate to implement the terms of, and the relief granted in, this Order without seeking further order of the Court.

29 All time periods set forth herein shall be calculated in accordance with Bankruptcy Rule 9006(a)

30 The Court shall retain jurisdiction with respect to all matters arising from or related to the implementation of this Order

31 This Order shall be effective and enforceable upon its entry

Dated: New York, New York
_____, 2004

UNITED STATES BANKRUPTCY JUDGE